Company number 4834265

Structural Monitoring Systems Plc

Annual Report
2019

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Mr R. Michael Reveley
Executive Director

Mr Will Rouse
Executive Director

Mr Terry Walsh
Non Executive Director

OFFICERS

Mr Toby Chandler
Chief Executive Officer

Mr Sam Wright
Company Secretary

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STOCK EXCHANGE LISTING
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
Code: SMN

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AUDITORS
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United Kingdom

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Important Notice

Structural Monitoring Systems Plc (the Company) is incorporated in the United Kingdom under the laws of England and Wales.
The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial holdings and takeovers).

STRATEGIC REPORT

Review of operations

Structural Monitoring Systems Plc ("SMS"), via historically strong sales contributions from its wholly-owned Canadian subsidiary, Anodyne Electronics Manufacturing Corp ("AEM"), materially exceeded top-line revenue expectations for the financial year. In this, the first full year of operations since AEM was acquired in December 2017, the SMS Group generated revenue of A$16.380m.

Of note, AEM has incurred approximately A$780k of operating expenses in the past 12 months related directly to the SMS (CVM™) business segment – which now includes a dedicated operational headcount of 12 employees, in addition to multiple "crossover" staff, at the Company's Kelowna, British Columbia facility. This figure does not include other significant investments in SMS equipment and other CAPEX, clean room expansion programs and both finished and unfinished inventory. AEM staff continue to prepare for the commercial production requirements of SMS in order to meet expected sales in 2020, pending the receipt of all final approvals that are currently in-progress at Boeing and the FAA. The top priorities include the broad automation of sensor design and production (targeted for Q4-2019), further expansion of the sensor production clean room (targeted completion H1-2020) and capital expenditures required for new and improved laser-cutting machines (target Q1-2020), workstations and other personnel and equipment necessary for production and quality assurance functions (anticipated to be fully completed in H1-2020).

As previously stated, the lift in revenue at AEM and longer lead times from third party suppliers, together with SMS-related inventory build, has resulted in a reduction in working capital levels, down approx. A$900K year-on-year. This has been the primary consumer of free cashflow at AEM over the last 12 months. Moving forward, it is expected that AEM inventory levels, as they relate to the historical business, will stabilise.

To date, forty six Company employees have subscribed for SMS shares via the Employee Incentive Plan ("EIP") which was approved by shareholders at last year's AGM, contributing circa-A$384k before issue costs. The EIP is available periodically to all employees (SMS and AEM - full and part-time).

At this juncture, It is envisaged that cash generated from current revenue producing operations, together with bank finance facilities already established, should be sufficient to fund SMS Group operations in advance of the onset of realised commercial benefits expected subsequent to the pending OEM/FAA approvals for the 737-NG Aft-Pressure Bulkhead ("APB") programme and the multi-aircraft type Wi-Fi applications.

SMS Programme Update

B737-NG APB Implementation Stage Programme

Delta Air Lines ("DAL") and SMS agreed to initiate a new programme to install CVM™ kits on twenty (20) B737-NG aircraft related to APB Service Bulletins ("SB"). The first installs were completed in April and will continue through to the end of 2019. To date, Delta has now successfully completed a total *of eleven (11) B737-800 aircraft* at MRO facilities located in El Salvador and Mexico. This represents a significant progression for the technology, and a major new milestone for the Company and DAL – and further represents over half of the total 737-800 aircraft operated by DAL that will receive this CVM™ installation in calendar-year 2019.

This Implementation Stage programme marks yet another key installation of CVM™ sensors on-board civil aircraft (noting that CVM™ still remains the *only* SHM technology that has ever been so installed on any commercial aircraft type). The programme sends a clear message to the industry that CVM™ has matured even further to a true, stand-alone commercial status, and the only SHM technology at NASA Technology Readiness Level ("TRL") 9. Importantly, DAL has agreed to initiate the installations *prior* to formal OEM approval, reflecting DAL's confidence in the technology, as well as the ability of SMS and DAL, working in close partnership, to achieve the appropriate OEM certification for the technology in an expedited timeframe. SMS and DAL, with valuable assistance from the FAA Airworthiness and Assurance Center (overseen by

STRATEGIC REPORT (CONTINUED)

Dr. Dennis Roach at Sandia Labs), will continue to work diligently to achieve the requisite approvals for the APB SBs, and other applications currently under consideration, with OEMs and global Regulators

Pivotal CVM™ 2KU Wi-Fi Programme

Delta Engineering ("DE") and SMS have completed the preliminary engineering and design work in order to seek the pivotal issuance of an STC from the FAA. Currently the FAA is in the final review stage and will submit a formal Issue Paper ("IP") to both DE and SMS in the very near term. This IP will provide specific guidance for structural health monitoring requirements and the final certification requirements, including any additional testing of the Wi-Fi radome related structure, if required. Once received, the IP will provide full clarity on any possible near-term additional gap testing requirements to achieve full CVM™ STC certification.

Revised SLA with The Boeing Company

SMS and Boeing executed a revised and updated SLA agreement in Q2-2019, as previously communicated. This document was executed in parallel with the progression of the aft-pressure bulkhead ("APB") inspection approval process within Boeing. This milestone leaves SMS with one final document, a Technical Consulting Agreement ("TCA"), to be executed with Boeing in relation to the current 737-NG APB project. The TCA will identify in detail the engineering data support and analysis required from the OEM and the pricing associated with providing such support.

SMS anticipates the finalisation of this document in the very near term. The TCA will pave the way for how the Company will address all future CVM™ approvals which may also require Boeing engineering input and technical analysis. The associated costs for all Boeing work required to approve SMS CVM™ Kits for all future Service Bulletin, Airworthiness Directive and maintenance tasks on behalf of our global operators will be covered under individual TCA's. Significant work has been completed on the TCA, by both Boeing and SMS personnel, and the Company expects to have an executed TCA in the near future. As such, at this juncture the Company has maintained the timing for approval of the Service Bulletin by Boeing will be obtained in Q4-2019 or Q1-2020.

Analysis Using Key Financial Performance Indicators and Milestones

At 30 June 2019, the Group had approximately $1.56m cash at bank, net of borrowings (2018: $3,25m).

In this, the first full year of operations since the acquisition of AEM was completed in December 2017, the Group recorded a loss for the financial year of $4,027,298 (2018: $3,894,697). The increase in loss was incurred due in part to share-based payment expenses of $2,031,384 (2018: $1,825,996). The Group also recorded revenue during the year of $16,380,037 (2018: $7,436,679). Other key expenses during the year were cost of sales of $9,999,317 (2018: $5,082,018), employee costs of $4,058,379 (2018: $1,507,392) and sales and marketing expenses of $693,311 (2018: $98,572), mainly as a result of increased travel in promoting and developing the business. There were no exceptional costs incurred during the year (2018: $449,492 as a result of the acquisition of AEM in December 2017).

The Group EBITDA* for the financial year was ($2,827,370) (2018: ($3,651,023)). EBITDA from AEM was $2,363,371 (2018: $161,443).

Loss per share for the financial year was 3.51 cents per share (2018: Loss per share 3.55 cents).

STRATEGIC REPORT (CONTINUED)

At the reporting date the Group had net assets of $12,378,360 (2018: $13,477,443). The Group has trade receivables of $3,333,770 (2018: $2,867,156), inventory of $6,159,874 (2018: $4,709,788) and intangible assets of $3,684,593 (2018: $3,853,276), including goodwill of $1,474,949 (2018: $1,386,794). The key movements during the year were an increase in inventory of $1.45m, together with an increase in trade receivables of $0.46m, a decrease in cash and cash equivalents of $1.7m and an increase in trade and other payables of $1.1m as a build in inventory levels was made to meet order demand in 2020. There was also an increase in tax expense from $73,961 credit to $400,527.

*EBITDA, which is inclusive of FX gains/losses, is calculated by adding back interest costs, depreciation and amortisation expenses and deducting income tax benefit and interest revenue from loss after tax for the year of $4,027,298 (2018: $3,894,697).

Global Marketing Update and Outlook

Looking ahead, revenues from AEM are budgeted to increase by 8–10% in the next financial year. Highlighting this optimistic outlook, through August - the second month of the new financial year - AEM shipped circa-C$2.53 million of orders, 124% above budget. Importantly, the synergies continue to build between the sales effort at AEM and SMS. AEM has active sales programmes with many of the OEM's that SMS are targeting for CVM™ such as Sikorsky, Embraer, and Airbus.

In addition to preparing for the commercial rollout of SMS products, the AEM in-house R&D team have a number of new products under development in line with the strategic push to grow the intellectual property portfolio. These products are expected to come to market over the next 1- 3 years. Supplementing this effort the management team are actively investigating growth through small add-on acquisitions that would accelerate this product portfolio growth.

Principal Risks and Uncertainties

The principal risks and how they are managed are set out on page 16 of the Director's Report.

The Strategic Report was signed on behalf of the Board.

R. Michael Reveley

Executive Director

30th September 2019

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2019.

DIRECTORS AND OFFICERS

The names of the Company's directors and officers in office during the year and until the date of this report are as below.

Directors and officers were in office for this entire period unless otherwise stated.

R. Michael Reveley (Executive Director)

Mr Reveley served as a managing partner, chief executive and co-CIO of SEAL Capital Ltd, a Los Angeles-based hedge fund specialising in global macro strategies designed to provide risk-adjusted absolute returns investing in an array of global markets, under all market conditions. Before forming SEAL Capital, he was a founding partner and deputy CIO at Seagate Global Advisors in Los Angeles, having earlier been director of the syndicate and derivatives group at SBC Warburg in London and New York, vice-president of global derivatives for Swiss Bank Corporation and vice-president of the global derivatives group at First Interstate Bank, where he co-managed a US$20bn derivatives portfolio.

Will Rouse (Executive Director)

Will is an experienced senior banker, finance executive and "serial entrepreneur" focused on the acquisition and optimised growth of specialised manufacturing-related businesses. In his last role, Will acquired Simcro Ltd ("Simcro") in 2007, a New Zealand-based export-manufacturer. Will sold his majority stake in Simcro in 2013 to The Riverside Company, a New York private equity group, retaining a 20% shareholding. Simcro then acquired two further operating businesses in NZ and Australia in 2015, with Will leading these acquisitions. Simcro was recently sold to a global multinational. Will is a Chartered Accountant and remains on the Board of Simcro.

Terry Walsh (Non-Executive Director)

Mr. Walsh is a highly experienced corporate counsel having led legal teams at such firms as Hancock Prospecting Pty Ltd and Rio Tinto Limited (Perth). Mr. Walsh runs a private consultancy company, providing Board, commercial, business development and corporate advisory services. He will provide a key oversight role for the Company's corporate legal affairs including contract negotiations, IP enforcement and maintenance, regulatory oversight and corporate compliance, and any future civil interactions.

Admission: Supreme Court of Western Australia in February 1995.

Mr Walsh currently serves as a Non-Executive Director of Nanollose Limited. During the last 3 years Mr Walsh has also been a Non-Executive Director of Hazer Group Limited.

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DIRECTORS' REPORT (CONTINUED)

Toby Chandler (Chief Executive Officer)

Mr Chandler is Co-Founder and Chief Investment Officer of SEAL Capital Ltd, a global macro hedge fund investing in diverse global markets and financial instruments. Before forming SEAL Capital, Mr Chandler was a Partner and Portfolio Manager with private equity and macro hedge fund, Seagate Global Advisors, Inc.

In prior roles, Mr Chandler was a Managing Director with Morgan Stanley Inc, New York, where he ran the Bank's Specialist Hedge Fund Desk servicing key institutional counterparties in an array of financial products, and global markets. Mr Chandler has also held several other senior bank positions including Managing Director and Head of Global Fixed Income Distribution with HSBC Securities (USA) NA, New York; other previous Executive Director positions with Morgan Stanley Inc and Morgan Stanley International Plc, London, as Head of Emerging Markets and Global Fixed Income Distribution; and Vice President with Citigroup NA, New York and Citigroup Australia. He received his B.Comm in Finance from the University of Western Australia and his Masters in Applied Finance and Investment from the Securities Institute of Australia.

Sam Wright (Company Secretary)

Sam Wright has over fifteen years experience in the administration of ASX listed companies, corporate governance and corporate finance. He is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.

Mr Wright is also Company Secretary for ASX listed companies, Buxton Resources Limited, PharmAust Limited and Wide Open Agriculture Limited. Mr Wright has also filled the role of Director and Company Secretary with a number of unlisted companies.

Mr Wright is the Managing Director of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies

Mr Wright has extensive experience in relation to public Company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, and shareholder relations with both retail and institutional investors.

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity consisted of the design and manufacture of electronic products and the provision of manufacturing services to the aviation industry.

DIRECTORS' REPORT (CONTINUED)

SHAREHOLDER MEETINGS

Structural Monitoring Systems Plc held its Annual General Meeting of Shareholders at Level 7, Picadilly Tower, 133 Castlereagh Street, Sydney, New South Wales on 11th December 2018 at 12.00pm ADST.

All resolutions that were put were unanimously passed on a show of hands.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required under the rules of the Australian Securities Exchange to prepare group and company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

In preparing the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the www.smsystems.com.au website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurasdictions.

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

DIRECTORS' REPORT (CONTINUED)

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance sheet date the Company announced the execution of an updated agreement with the Boeing Company for the acquisition of products and services, and the Company has been granted license rights to use Boeing propriety data for the sale of products or services.

Other than the above no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

RESULTS AND DIVIDEND

The operating loss, after income tax, for the year was $4,027,298 (2018: $3,894,697). No dividends were proposed or paid during the financial year.

SHARE CAPITAL

The impact on share capital and share premium account of the share issues in the year, is disclosed in note 22 to the Financial Statements.

GOING CONCERN

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM and the realisation of assets and discharge of liabilities in the normal course of business as well as the availability of an established operating loan facility of up to CAD$2 million. The directors consider the going concern basis of accounting to be appropriate based on forecast cash flows.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Company and the Group entity do not continue as going concerns.

DIRECTORS MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Group during the financial year are:

	Board meetings		Audit committee		Remuneration committee	
Director	A	B	A	B	A	B
R M Reveley	-	-	-	-	-	-
W Rouse	-	-	-	-	-	-
T Walsh	-	-	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time which the director held office during the year

Although no formal directors' meetings were held during the year regular executive meetings were held on a monthly basis throughout the year.

DIRECTORS' REPORT (CONTINUED)

RESEARCH AND DEVELOPMENT

The Group actively reviews technical developments in its markets with a view to taking advantage of the opportunities available to maintain and improve it's competitive position. This action involves the design and development of structural health monitoring systems applicable to the aviation industry.

REMUNERATION REPORT

REMUNERATION POLICY

The Remuneration Committee of the Board of Directors of Structural Monitoring Systems Plc is responsible for determining and reviewing compensation arrangements for the directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emoluments in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and senior executives' emoluments to the Company's financial and operational performance. Executive directors and employees have the opportunity to qualify for participation in the Company Employee Incentive Plan.

It is the Remuneration Committee's policy that employment agreements shall be entered into with the Managing Director and all other executives. The current employment agreement is consistent for all executives. The agreement has 3 months' notice period and provides for payment of an amount of three months' salary at the end of the three month notice period. Any options or performance rights held lapse when the service period is completed.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

Details of the nature and amount of each major element of remuneration of each director of the Group and each of the Group executives who receive the highest remuneration are:

	Salary & Fees		Post Employ-ment	Share-based payments**		Total
30 June 2019	Cash	Shares	Superannuation	Performance rights	Shares	
	$	$	$	$	$	$
Directors						
R. Michael Reveley	175,081	-	-	-	-	175,081
Will Rouse (1)	120,000	-	-	-	-	120,000
Terry Walsh (3)	105,023	-	9,977	-	57,000	172,000
Executives						
Toby Chandler	225,000	-	-	-	-	225,000
Total	**625,104**	**-**	**9,977**	**-**	**57,000**	**692,081**

	Salary & Fees		Post Employ-ment	Share-based payments**		Total
30 June 2018	Cash	Shares	Superannuation	Performance rights	*Shares*	
	$	$	$	$	$	$
Directors						
R. Michael Reveley	149,272	28,888*	-	293,800	-	471,960
Will Rouse (1)	77,425	-	-	-	146,900	224,325
Andrew Chilcott (2)	28,125	-	-	-	-	28,125
Terry Walsh (3)	28,714	-	2,728	-	-	31,442
Ray Lewis (4)	15,726	-	-	-	-	15,726
Executives						
Toby Chandler	202,500	-	-	573,300	-	775,800
Total	**501,762**	**28,888**	**2,728**	**867,100**	**146,900**	**1,547,378**

(1) Appointed 8 November 2017
(2) Resigned 4 April 2018
(3) Appointed 4 April 2018. 2019 includes $70,000 pa inc super as legal counsel
(4) Appointed 10 October 2016, resigned 8 November 2017

*Shares earned as per terms of employment agreement and issued at AGM following shareholder approval.

**Share-based payments are equity instruments granted and vested during the reporting period. The amounts recorded in the statement of comprehensive income is the valuation pro-rata across the term of the equity instrument (2019: $1,045,086, 2018: $1,526,996). Details of share-based payments are provided in Note 21 in the notes to the financial statements.

DIRECTORS' REPORT (CONTINUED)

OPTIONS GRANTED AS COMPENSATION (WITHOUT PERFORMANCE CONDITIONS)

No options over ordinary shares (without performance conditions) in the Group were granted as incentives to directors or employees during the reporting period.

No shares were issued on exercise of remuneration options.

PERFORMANCE RIGHTS GRANTED AS COMPENSATION (WITH PERFORMANCE CONDITIONS)

Directors

On 7 August 2018 shareholders approved the issue of 150,000 Performance Rights (PRs) to Terry Walsh (Director) under the Company Employee Incentive Plan (EIP).

All Director PRs are subject to continued services with the Company and vest based on the attainment of share price barriers within 3 years of the issue date.

The following Director PRs were issued during the year:

Director	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Total
T Walsh	25,000	25,000	25,000	25,000	25,000	25,000	150,000
Fair value at grant date ($)	0.903	0.789	0.692	0.650	0.611	0.575	
Expense recognised in current period ($)	6,701	5,855	5,135	4,824	4,534	4,267	$31,316

SHARES GRANTED AS COMPENSATION (WITHOUT PERFORMANCE CONDITIONS)

Directors

On 7 August 2018 shareholders approved the issue of 50,000 shares to Terry Walsh under the terms of his contract of employment. The expense recognised in the current period is $57,000. The total fair value was determined by the share price on the grant date.

DIRECTORS' REPORT (CONTINUED)

SERVICE AGREEMENTS

Remuneration and other terms of employment for Directors and executives are formalised in service agreements. Details of these agreements are as follows:

Name:	R. Michael Reveley
Title:	Managing Director and Chairman
Agreement commenced:	28 February 2018
Term of agreement:	no fixed term
Details:	Base salary of US$125,000 to be reviewed annually by the Remuneration Committee.

Name:	Will Rouse
Title:	Executive Director
Agreement commenced:	8 November 2017
Term of agreement:	no fixed term
Details:	Base salary of AU$120,000, to be reviewed annually by the Remuneration Committee.

Name:	Terry Walsh
Title:	Non-Executive Director & General Counsel
Agreement commenced:	4 April 2018
Term of agreement:	no fixed term
Details:	Base salary AU$115,000 inclusive of superannuation, to be reviewed annually by the Remuneration Committee. A discretionary bonus of up to $100,000 payable in cash and/or shares of the company, related to demonstrable achievement in performance of duties. The award of such bonus will be at the sole discretion of the CEO and the Board of directors. Includes non-compete clause and subject to termination notice of 1 month notice by the director and 2 months notice by the company.

Name:	Toby Chandler
Title:	Chief Executive Officer
Agreement commenced:	12 December 2015
Term of agreement:	no fixed term
Details:	Base salary of AU$225,000 to be reviewed annually by the Remuneration Committee.

Directors and executives have no entitlement to termination payments in the event of removal for misconduct.

DIRECTORS' REPORT (CONTINUED)

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVES

Shares held in Structural Monitoring Systems Plc:

30 June 2019	Balance at beg of period	Share held on appointment/resignation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of period
	No.	No.	No.	No.	No.	No.
Directors						
R. Michael Reveley	2,944,352	-	-	-	20,000	2,964,352
Will Rouse (1)	100,000	-	-	-	50,000	150,000
Terry Walsh (3)	-	-	50,000	-	14,500	64,500
Executives						
Toby Chandler	2,016,186	-	-	-	133,814	2,150,000
Total	5,060,538	-	50,000	-	218,314	5,328,852

30 June 2018	Balance at beg of period	Share held on appointment/resignation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of period
	No.	No.	No.	No.	No.	No.
Directors						
R. Michael Reveley	2,713,462	-	30,890	200,000	-	2,944,352
Will Rouse (1)	-	-	100,000	-	-	100,000
Andrew Chilcott (2)	357,140	(357,140)	-	-	-	-
Terry Walsh (3)	-	-	-	-	-	-
Ray Lewis (4)	-	-	-	-	-	-
Executives						
Toby Chandler	1,515,000	-	41,186	450,000	10,000	2,016,186
Total	4,585,602	(357,140)	172,076	650,000	10,000	5,060,538

(1) Appointed 8 November 2017
(2) Resigned 4 April 2018
(3) Appointed 4 April 2018
(4) Resigned 8 November 2017

DIRECTORS' REPORT (CONTINUED)

PERFORMANCE RIGHTS HOLDINGS OF DIRECTORS AND EXECUTIVES

Performance rights held over shares in Structural Monitoring Systems Plc:

30 June 2019	Balance at beg of year No.	Granted during the year No.	Exercised during the year No.	Forefeited during the year No.	Balance at end of the year No.
Directors					
R. Michael Reveley	600,000	-	-	-	600,000
Will Rouse [(1)]	625,000	-	-	-	625,000
Terry Walsh [(3)]	-	150,000	-	-	150,000
Executives					
Toby Chandler	1,400,000	-	-	-	1,400,000
	2,625,000	150,000	-	-	2,775,000

30 June 2018	Balance at beg of year No.	Granted during the year No.	Exercised during the year No.	Forefeited during the year No.	Balance at end of the year No.
Directors					
R. Michael Reveley	-	800,000	(200,000)	-	600,000
Will Rouse [(1)]	-	625,000	-	-	625,000
Andrew Chilcott [(2)]	-	300,000	-	(300,000)	-
Terry Walsh [(3)]	-	-	-	-	-
Ray Lewis [(4)]	-	-	-	-	-
Executives					
Toby Chandler	-	1,850,000	(450,000)	-	1,400,000
	-	3,575,000	(650,000)	(300,000)	2,625,000

[(1)] Appointed 8 November 2017
[(2)] Resigned 4 April 2018
[(3)] Appointed 4 April 2018
[(4)] Resigned 8 November 2017

END OF REMUNERATION REPORT

INFORMATION GIVEN TO AUDITORS

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

CREDITOR PAYMENT POLICY

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2020. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2019, the Group's trade creditors represented 74 days' purchases (2018: 36 days).

DIRECTORS' REPORT (CONTINUED)

FINANCIAL INSTRUMENTS AND RISKS

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the CEO. The Board receives monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

The Group is exposed through its operations to the following financial risks:

- credit risk;
- liquidity risk;
- foreign exchange risk

The Group is exposed to the usual credit risk associated with selling on credit and manages this through credit control procedures. Further information is provided in note 23 to the Financial Statements.

As a result of operations in United Kingdom, Canada, USA and Australia, the Group's assets and liabilities can be affected by movements in the UK£/A$, CAD$/A$ and USD$/A$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group is exposed to foreign currency risk following the acquisition of a Canadian-based subsidiary and the risk could increase in the future as international commercialisation of the Group's technologies increase. There is currently no form of currency hedging or risk strategy in place, but this policy will be reviewed and strategies implemented once the review is complete.

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group monitors forecast cash inflows and outflows on a monthly basis. The Group has an established operating loan facility for up to CAD$2 million to assist with day to day operating requirements.

Business risks and uncertainties

The Group has a reliance on one customer at the present time. The customer accounts for $8.2 million of revenues totalling $16.38 million. The relationship with the customer is secured by a licence agreement and the Group is pursuing growth opportunities.

Future developments

The directors have discussed the future developments for the business within the Strategic Report on page 5, in accordance with Section 414C of the Companies Act 2016.

By order of the Board

R. Michael Reveley

Executive Director

30th September 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

		Consolidated		Parent	
		2019	**2018**	**2019**	**2018**
	Note	**$**	**$**	**$**	**$**
Continuing operations					
Revenue					
Sales		16,380,037	7,436,679	95,119	-
Cost of sales		(9,999,317)	(5,082,018)	(90,635)	-
Gross profit		6,380,720	2,354,661	4,484	-
Other income	4	31,772	144,383	-	-
Depreciation and amortisation	4	(661,572)	(314,682)	-	-
Employee expenses	6	(4,058,379)	(1,507,392)	(900,309)	-
Impairment charges		-	-	(125,132)	(3,795,458)
Occupancy expenses		(83,093)	(6,739)	(83,093)	-
Research and development expenses		(417,295)	(163,141)	(155,686)	-
Sales and marketing		(692,311)	(98,572)	(690,617)	-
Share-based payment expense	21	(2,031,384)	(1,825,996)	(2,031,384)	-
Administrative expenses		(1,940,221)	(2,288,395)	(478,798)	(235,976)
Operating loss before exceptional items		(3,471,763)	(3,705,873)	(4,460,535)	(4,031,434)
Exceptional items					
Legal and professional fees		-	(302,592)	-	-
Share-based payment		-	(146,900)	-	-
		-	(449,492)	-	-
Operating loss before finance costs and tax		(3,471,763)	(4,155,365)	(4,460,535)	(4,031,434)
Finance income		9,842	1,782	-	-
Finance costs		(147,671)	(4,725)	-	-
Foreign exchange (losses)/gains		(17,179)	189,660	-	-
Income tax (expense)/benefit	7	(400,527)	73,951	-	-
Loss after finance costs and tax from continuing operations		(4,027,298)	(3,894,697)	(4,460,535)	(4,031,434)
Loss attributable to members of the parent		(4,027,298)	(3,894,697)	(4,460,535)	(4,031,434)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation		704,483	(136,737)	-	-
Total comprehensive income/(loss) for the year		704,483	(136,737)	-	-
Loss for the year attributable to owners of Structural Monitoring Systems Plc		(3,322,815)	(4,031,434)	(4,460,535)	(4,031,434)

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

		Consolidated	
		2019	**2018**
Loss per share (cents per share)			
Basic for loss from continuing operations	8	(3.51)	(3.55)
Diluted for loss from continuing operations	8	(3.51)	(3.55)

The accompanying notes form an integral part of the financial statements.

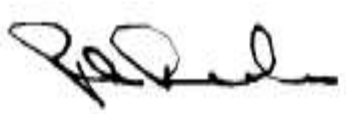
STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

		Consolidated		Parent	
		2019	**2018**	**2019**	**2018**
	Note	**$**	**$**	**$**	**$**
Assets					
Non-current assets					
Loans to subsidiaries	14	-	-	11,819,387	13,525,041
Plant and equipment	12	539,747	536,830	-	-
Intangible assets and goodwill	13	3,684,593	3,853,276	-	-
Deferred tax	7	-	107,061	-	-
Total non-current assets		4,224,340	4,497,167	11,819,387	13,525,041
Current assets					
Trade receivables	9	3,333,770	2,867,156	-	-
Other receivables	10	361,073	285,371	16,949	-
Inventory	11	6,159,874	4,709,788	-	-
Cash and cash equivalents		2,291,208	3,390,236	-	-
Total current assets		12,145,925	11,252,551	16,949	-
Total assets		16,370,265	15,749,718	11,836,336	13,525,041
Liabilities					
Current liabilities					
Trade and other payables	15	2,583,277	1,462,776	290,893	47,598
Borrowings	16	729,359	139,646	-	-
Tax payable	17	229,721	133,045	-	-
Total current liabilities		3,542,357	1,735,467	290,893	47,598
Non-current liabilities					
Loans from subsidiaries	15	-	-	304,803	-
Deferred tax	7	449,548	536,808	-	-
Total non-current liabilities		449,548	536,808	304,803	-
Total liabilities		3,991,905	2,272,275	595,696	47,598
Net assets		**12,378,360**	**13,477,443**	**11,240,640**	**13,477,443**
Equity attributable to equity holders of the parent					
Issued capital	22	31,932,333	31,926,515	31,932,333	31,926,515
Share premium reserve	22	35,105,783	34,919,253	35,105,783	34,919,253
Accumulated losses		(54,542,992)	(51,473,583)	(55,112,966)	(51,610,320)
Other reserves	22	(116,764)	(1,894,742)	(684,510)	(1,758,005)
Total equity		**12,378,360**	**13,477,443**	**11,240,640**	**13,477,443**

The accompanying notes form an integral part of the financial statements.

Approved by the Board and authorised for issue on 30th September 2019



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R. Michael Reveley, Executive Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

		Consolidated		Parent	
		2019	**2018**	**2019**	**2018**
	Note	**$**	**$**	**$**	**$**
Cashflows from operating activities					
Receipts from customers		15,913,423	7,571,649	95,119	-
Payments to suppliers and employees		(17,581,309)	(8,522,362)	(2,172,792)	(202,753)
Interest received		9,842	1,782	-	-
Interest paid		(147,671)	(4,725)	-	-
Net cash used in operating activities before tax paid	18(a)	(1,805,715)	(953,656)	(2,077,673)	(202,753)
Income tax paid		(150,939)	(246,552)	-	-
Net cash used in operating activities		(1,956,654)	(1,200,208)	(2,077,673)	(202,753)
Cashflows from investing activities					
Payments for plant and equipment		(229,991)	(217,079)	-	-
Net cash paid on acquisition of subsidiary		-	(10,998,750)	-	(10,998,750)
Net cash used in investing activities		**(229,991)**	**(11,215,829)**	**-**	**(10,998,750)**
Cashflows from financing activities					
Proceeds from issue of shares		209,000	13,000,000	209,000	13,000,000
Issue costs		(16,652)	(231,625)	(16,652)	(231,625)
Loan from/(to) subsidiaries		-	-	1,885,325	(1,566,872)
Net cash provided by financing activities		**192,348**	**12,768,375**	**2,077,673**	**11,201,503**
Net increase/(decrease) in cash held		(1,994,297)	352,338	-	-
Cash and cash equivalents at beginning of year		3,250,590	2,943,623	-	-
Effect of foreign exchange on balances		305,556	(45,371)	-	-
Net cash and cash equivalents at end of year	18(b)	**1,561,849**	**3,250,590**	**-**	**-**
Cash and cash equivalents		2,291,208	3,390,236	-	-
Borrowings		(729,359)	(139,646)	-	-
Net cash and cash equivalents at end of year		**1,561,849**	**3,250,590**	**-**	**-**

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	**Issued capital $**	**Accumulated losses $**	**Share premium reserve $**	**Share-based payments reserve $**	**Foreign currency translation reserve $**	**Total $**
At 1 July 2017	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927
Loss for the year	-	(3,894,697)	-	-	-	(3,894,697)
Foreign currency translation	-	-	-	-	(136,737)	(136,737)
Total comprehensive loss for the year	-	(3,894,697)	-	-	(136,737)	(4,031,434)
Transactions with owners:						
Issue of performance rights	-	-	-	1,380,096	-	1,380,096
Conversion of performance rights	3,250	863,850	-	(867,100)	-	-
Issue of shares	3,810	590,550	433,119	-	-	1,027,479
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(531,625)	-	-	(531,625)
Total transactions with owners	59,060	1,454,400	12,849,494	512,996	-	14,875,950
At 30 June 2018	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443
At 1 July 2018	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443
Loss for the year	-	(4,027,298)	-	-	-	(4,027,298)
Foreign currency translation	-	-	-	-	704,483	704,483
Total comprehensive loss for the year	-	(4,027,298)	-	-	704,483	(3,322,815)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,073,495	-	1,073,495
Issue of shares to directors and staff/consultants	5,818	957,889	203,182	-	-	1,166,889
Share issue costs	-	-	(16,652)	-	-	(16,652)
Total transactions with owners	5,818	957,889	186,530	1,073,495	-	2,223,732
At 30 June 2019	31,932,333	(54,542,992)	35,105,783	1,586,491	(1,703,255)	12,378,360

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019

Parent	**Issued capital $**	**Accumulated losses $**	**Share premium reserve $**	**Share-based payments reserve $**	**Foreign currency translation reserve $**	**Total $**
At 1 July 2017	31,867,455	(48,994,046)	22,069,759	-	(2,310,241)	2,632,927
Loss for the year	-	(4,031,434)	-	-	-	(4,031,434)
Total comprehensive loss for the year	-	(4,031,434)	-	-	-	(4,031,434)
Transactions with owners:						
Issue of performance rights	-	-	-	1,380,096	-	1,380,096
Conversion of performance rights	3,250	863,850	-	(867,100)	-	-
Issue of shares	3,810	590,550	433,119	-	-	1,027,479
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(531,625)	-	-	(531,625)
Transfer of reserve to accumulated losses	-	(39,240)	-	-	39,240	-
Total transactions with owners	59,060	1,415,160	12,849,494	512,996	39,240	14,875,950
At 30 June 2018	31,926,515	(51,610,320)	34,919,253	512,996	(2,271,001)	13,477,443
At 1 July 2018	31,926,515	(51,610,320)	34,919,253	512,996	(2,271,001)	13,477,443
Loss for the year	-	(4,460,535)	-	-	-	(4,460,535)
Total comprehensive loss for the year	-	(4,460,535)	-	-	-	(4,460,535)
Transactions with owners:						
Issue of performance rights to directors and staff	-	-	-	1,073,495	-	1,073,495
Issue of shares to directors and staff	5,818	957,889	203,182	-	-	1,166,889
Share issue costs	-	-	(16,652)	-	-	(16,652)
Total transactions with owners	5,818	957,889	186,530	1,073,495	-	2,223,732
At 30 June 2019	31,932,333	(55,112,966)	35,105,783	1,586,491	(2,271,001)	11,240,640

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1 CORPORATE INFORMATION AND AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements of Structural Monitoring Systems Plc for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 30 September 2019 and the statements of financial position were signed on the Board's behalf by Michael Reveley.

Structural Monitoring Systems Plc is a public limited company incorporated and domiciled in the United Kingdom. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK register cannot be traded on the Australian Securities Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements and those of the parent entity are presented in Australian dollars which is the Company's functional currency and are rounded to the nearest Australian dollar. The average AUD:GBP rate for the year was 0.5527 (2018: 0.5762) and the reporting date AUD:GBP spot rate was 0.5535 (2018: 0.5640). The average AUD:CAD rate for the year was 0.9469 (2018: 0.9846) and the reporting date AUD:CAD spot rate was 0.9187 (2018: 0.9771). CAD is the presentational currency of Anodyne Electronics Manufacturing Corp (AEM), a wholly-owned subsidiary of the Company.

(b) Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM and the realisation of assets and discharge of liabilities in the normal course of business as well as the availability of an established operating loan facility of up to CAD$2 million. The directors consider the going concern basis of accounting to be appropriate based on forecast cash flows.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Company and the Group entity do not continue as going concerns.

(c) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as they apply to the financial statements of the Group for the year ended 30 June 2019 and are applied in accordance with the Companies Act 2006. The Group and the Company have not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements. See note 2(d) and 2(aa) for further consideration.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Accounting standards and Interpretations

The following standards and interpretations are most relevant to the Group:

IFRS 9 *Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The classification of financial assets under IFRS 9 is based on whether the contractual cash flows of the instrument are solely payments of principal and interest, and whether the business model is to collect those contractual cash flows and/or sell the financial assets. The classification and measurement of financial assets under IFRS 9 is set out below.

All the group's financial assets were previously classified as loans and receivables under IAS 39 and are classified as assets at amortised cost under IFRS 9.

The only change in measurement of financial assets on application of IFRS 9 arises from impairment of financial assets. IFRS 9 requires impairments of financial assets to be assessed using an 'expected loss' model. The change from the 'incurred loss' model previously applied under IAS 39 has not resulted in a material change to carrying value of financial assets at 30 June 2018 in respect of financial assets held in the group financial statements. On this basis there has been no restatement of comparative figures for the year ended 30 June 2018 or to equity at 1 July 2018.

The application of IFRS 9 has not changed the measurement of the group's financial liabilities or the group's accounting policies for the recognition or derecognition of financial instruments.

In respect of the parent company financial statements, under IAS 39, an "incurred loss" model previously applied to the group's intercompany loans. However, IFRS 9 requires a loss allowance to be for the difference between the net present value of the company's contractual cash flows and the net present value of the expected cash flows. On transition to IFRS 9 the modified retrospective application method has been applied and the opening intercompany loan has been recalculated to reflect the expected credit losses impairment model. Prior years are not restated

The new accounting policies under IFRS 9 are disclosed below. The accounting policies under IAS 39 applied in the previous period are available in the 30 June 2018 annual report.

IFRS 15 *Revenue from Contracts with Customers*

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018. This has replaced existing revenue recognition standard IAS 18 *Revenue*.

Following a review and an impact assessment of this standard it was concluded that the Group's revenue streams are currently recognised at the point that its performance obligation is satisfied and at a determined transaction price and therefore, under IFRS 15, there was no material change in the amount and timing of its revenue recognition.

The Group's customer contracts have warranty arrangements within them, however these are to provide assurance that the Group's products comply with agreed-upon specifications and, as such, should be accounted for in accordance with IAS 37. No provision has been made for warranty costs on the basis that the history of returns is immaterial.

The new accounting policies under IFRS 15 are disclosed below. The accounting policies under IAS 18 applied in the previous period are available in the 30 June 2018 annual report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Structural Monitoring Systems Plc at the end of the reporting period. A controlled entity is any entity over which Structural Monitoring Systems Plc is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the ye ar that they were controlled.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured at the end of each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(f) Foreign currency translation

(i) Functional currency

Items included in the financial statements of each of the companies in the Group are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The functional currency of Structural Monitoring Systems Plc is Australian dollars and its presentation currency is Australian dollars. The functional currency of its overseas subsidiary, Structural Monitoring Systems Limited, is Australian dollars and the functional currency of its overseas subsidiary, Anodyne Electronics Manufacturing Corp is Canadian dollars.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(iii) Group entities

The results and financial position of all the Company entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses aretranslated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity and in Other comprehensive Income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to foreign currency translation reserve.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

(g) Impairment of property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of less than three months. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade, Group and other receivables

Trade, other and group receivables are recorded initially at fair value and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts was recognised under an "incurred loss" model until 1 July 2018 and therefore it was dependent upon the existence of an impairment event. From 1 July 2018, the allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade, Group and other payables

Trade, Group and other payables are initially measured at fair value net of direct transaction costs and subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Group are recorded at fair value on initial recognition net of transaction costs.

Derecognition of financial assets (including write-offs) and financial liabilities

A financial asset (or part thereof) is derecognised when the contractual rights to cash flows expire or are settled, or when the contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership are transferred to another party. When there is no reasonable expectation of recovering a financial asset it is derecognised ("written off"). The gain or loss on derecognition of financial assets measured at amortised cost is recognised in profit or loss. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both. The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

For trade receivables, material expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The *r*isk of a default occurring always takes into consideration all possible default events ove the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

For intercompany loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the subsidiary does not have sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, an expected credit loss is calculated. This is calculated based on the expected cash flows arising from the subsidiary, and weighted for probability likelihood variations in cash flows.

Definition of default

The loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default when the principal or any interest is significantly more than the associated credit terms past due, based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

Write-off policy

Receivables are written off by the Group when there is no reasonable expectation of recovery, such as when the counterparty is known to be going bankrupt, or into liquidation or administration. Receivables will also be written off when the amount is more than materially past due.

(i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Share-based payment transactions

The Group provides benefits to employees (including directors) in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions'). The fair value of options is determined using the Black-Scholes pricing model.

There is currently one plan in place to provide these benefits, the Employee Incentive Plan (EIP), which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Structural Monitoring Systems Plc ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

(k) Revenue

Revenue recognition – Repair services

Repairs meet the definition of a distinct service whereby the associated revenue is to be recognized at a point in time, evidenced by the completion of the agreed upon service and delivery of the repaired parts/components to the customer. The point in time criteria are met as the following transfers of control exist: (a) The entity has the present right to payment for the asset; (b) the customer has the legal right to the asset; (c) the entity has transferred physical possession of the asset; (d) the customer has the significant risks and rewards of ownership of the asset; aI(e) the customer has accepted the asset. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices.

Revenue recognition – Product sales (stock or customised parts)

Product sales meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the delivery of the products to the customer. The point in time criteria are met as the following transfers of control exist: (a) The entity has the present right to payment for the asset; (b) the customer has the legal right to the asset; (c) the entity has transferred physical possession of the asset; (d) the customer has the significant risks and rewards of ownership of the asset; (e) the customer has accepted the asset. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices. There are no further performance obligations associated with these sales.

At times, multiple services or goods are sold to customers, however, contracts detail out separate prices for each different good or service purchased. As each service or good purchased has a standalone selling price in the negotiated contract there is no need to allocate a purchase price across multiple deliverables. In addition, each contract includes payment terms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group recognises revenue on shipping for stock parts, customized product and customer product. When the Group provides a service (prototyping) it generally recognizes revenue when the prototype is shipped or as the service is provided if there is no item to be shipped. The Group recognises revenue when it satisfies its performance obligation under the contract (when the Group ships the product which is also when the customer obtains control over the product or service).

(l) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on‘a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Property, plant and equipment

Plant and equipment and leasehold improvements are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 - 5 years
Leasehold improvements	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

(n) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in the statement of comprehensive income arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Certifications

Significant costs associated with certifications are amortised on a straight line basis over the period of their expected benefit, being the finite life of 5 years.

Licence agreement

Significant costs associated with a licence agreement are amortised on a straight line basis over the period of their expected benefit, being their finite life of 5 years.

Technology

Significant costs associated with technological intellectual property are amortised on a straight line basis over the period of their expected benefit, being their finite life of 10 years.

(o) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the as’et's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(p) Income tax

The charge for taxation for the year is the tax payable on the profit or loss for the year based on the applicable income tax rate for each jurisdiction and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Other taxes

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

where the VAT/GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

receivables and payables are stated with the amount of VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the VAT/GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of VAT/GST recoverable from, or payable to, the taxation authority.

(r) Employee entitlements

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(s) Investments in subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less, where appropriate, allowances for impairment.

(t) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions concerning the future which impact the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The accounting estimates resulting from these judgements and assumptions seldom equal the actual results but are based on historical experiences and future expectations.

i) Share-based payment transaction:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Black-Scholes or binomial pricing models, using the assumptions detailed in note 23 Share-based payments.

ii) Impairment resulting from acquisition of Anodyne Electronics Manufacturing (AEM)

Impairment of goodwill and intangible assets

An annual review is carried out (as set out in note 13 as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on (i) discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate; and/or (ii) the comparison of carrying value to the net selling price of the cash generating unit; the determination of these factors require the exercise of judgement.

iii) Impairment of inter-company receivables

The Company has intercompany loans to its subsidiary companies which are repayable on demand. As the subsidiaries did not have sufficient highly liquid resources to repay the loans at 30 June 2019, an expected credit loss provision is calculated under IFRS 9.

For Structural Monitoring Canada Corporation, the calculation is based upon the expectation that AEM will trade profitably in the future and that this will allow it to repay the loans in time. Forecast cash flows under a range of possible outcomes are assessed to derive a probability-weighted value for the loan based upon the time taken to repay the outstanding amount in full. These calculations rely on management judgements as to the future cash flow forecasts and the probability weightings assigned. Further details on the impairment provision are set out in note 14.

As at 30 June 2019, there are no other critical accounting estimates and judgements contained in the financial report.

(v) EU adopted International Financial Reporting Standards and Interpretations not yet mandatory or early adopted

EU adopted International Financial Reporting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The'Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 Leases

IFRS 16, "Leases", addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that almost all operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17, "Leases", and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, and earlier application is permitted, subject to the entity adopting IFRS 15, 'Revenue from contracts with customers', at the same time. The cumulative catch up method will be taken, together with the practical expedient to exclude leases from the calculation where the lease term ends within 12 months of the date of initial application. The financial impact applying the catch up method will be to recognise opening balances as at 1 July 2019 as follows:

For lessor accounting the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 and its impact on adoption is expected to result in total assets increasing by $1,124,990, total liabilities increasing by $1,130,147 and net assets decreasing by $5,157.

Consolidated	At 1 July 2019 (Under IAS 17) $	IFRS 16 Adjustment $	At 1 July 2019 Adjusted $
Non-current assets			
Property, plant and equipment	539,747	1,154,703	1,694,450
Current liabilities			
Lease liability	-	312,880	312,880
Non-current liabilities			
Lease liability	-	841,323	841,323

Annual improvements to IFRS standards 2015-2017 cycle was issued on 12 December 2017 and addresses the following amendments:

- IFRS 3 "Business combinations" clarifies that an acquirer is to remeasure the fair value of previously held interests at acquisition date.

- IFRS 11 "Joint arrangements" states that when a party subsequently obtains joint control, it must not remeasure its previously held interest.

- IAS 12 "Income taxes" applies to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period presented.

- IAS 23 "Borrowing costs" clarifies that once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale, the rate applied on those borrowings is included in the determination of the capitalizsation rate applied to general borrowings.

The above amendments are effective for annual periods beginning on or after 1 January 2019 and are not expected to have a material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

3. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group operates predominantly in two industries, being structural health monitoring (CVM™) and the design and manufacture of avionics and audio systems. A third segment refers to the intellectual property (IP) held in another subsidiary of the Parent. In the prior year he Group reported as operating in one segment, being structural health monitoring. The change in segment reporting has arose as a result of the acquisition of AEM introducing a new business segment within the Group.

The main geographic areas that the entity operates in are the USA, Canada and Europe. The Group has operations in the USA, Canada and Australia. The parent company is registered in the UK. An Australian-based subsidiary is the owner of CVM™ intellectual property.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2019 and 30 June 2018:

	CVM™ IP $	Avionics/audio $	CVM™ $	Total $
Year ended 30 June 2019				
Revenue				
Sale of goods	-	15,026,429	95,119	15,121,548
Rendering of services	-	1,258,489	-	1,258,489
Total sales revenue	-	16,284,918	95,119	16,380,037
Other revenue	31,772	-	-	31,772
Interest revenue	9,842	-	-	9,842
FX gains/(losses)	39,775	(56,954)	-	(17,179)
Total segment revenue	81,389	16,227,964	95,119	16,404,472
Sales revenue by customer location:				
Australasia	-	214,864	-	214,864
Africa	-	4,484	-	4,484
Europe	-	1,458,598	-	1,458,598
Americas	-	14,606,972	95,119	14,702,091
Total sales revenue	-	16,284,918	95,119	16,380,037
Result				
EBITDA*	(555,985)	2,363,371	(4,634,756)	(2,827,370)
Depreciation and amortisation	(1,594)	(659,978)	-	(661,572)
Interest revenue	9,842	-	-	9,842
Finance costs	(120,898)	(26,773)	-	(147,671)
Profit/(loss) before income tax	(668,635)	1,676,620	(4,634,756)	(3,626,771)
Income tax expense	-	(400,527)	-	(400,527)
Profit/(loss) for the year	(668,635)	1,276,093	(4,634,756)	(4,027,298)
Assets and liabilities				
Segment assets - current	1,062,797	10,505,303	577,825	12,145,925
Segment assets - non current	3,828	4,220,512	-	4,224,340
	1,066,625	14,725,815	577,825	16,370,265
Segment liabilities	474,699	3,226,314	290,892	3,991,905

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

3. SEGMENT INFORMATION (CONTINUED)

Other segment information				
Capital expenditure	-	229,991	-	229,991
Depreciation	1,594	258,668	-	260,262
Amortisation	-	401,310	-	401,310

	CVM™ IP $	US/Canada $	CVM™ $	Total $
Year ended 30 June 2018				
Revenue				
Sale of goods	-	6,817,511	-	6,817,511
Rendering of services	-	619,168	-	619,168
Total sales revenue	-	7,436,679	-	7,436,679
Other revenue	144,383	-	-	144,383
Interest revenue	1,782	-	-	1,782
FX gains	77,099	112,561	-	189,660
Total segment revenue	223,264	7,549,240	-	7,772,504
Sales revenue by customer location:				
Australasia	-	13,452	-	13,452
Africa	-	163,514	-	163,514
Europe	-	571,662	-	571,662
Americas	-	6,688,051	-	6,688,051
Total sales revenue	-	7,436,679	-	7,436,679
Result				
EBITDA*	(3,253,604)	(161,443)	(235,976)	(3,651,023)
Depreciation and amortisation	(108)	(314,574)	-	(314,682)
Interest revenue	1,782	-	-	1,782
Finance costs	-	(4,725)	-	(4,725)
Loss before income tax	(3,251,930)	(480,742)	(235,976)	(3,968,648)
Income tax benefit	-	73,951	-	73,951
Loss for the year	(3,251,930)	(406,791)	(235,976)	(3,894,697)
Assets and liabilities				
Segment assets	3,297,543	12,452,176	-	15,749,718
Segment liabilities	456,459	1,768,218	47,598	2,272,275
Other segment information				
Capital expenditure	5,250	211,829	-	217,079
Depreciation	108	121,702	-	121,810
Amortisation	-	192,972	-	192,972

*EBITDA is gross profit before income tax, depreciation, depreciation and amortisation

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

3. SEGMENT INFORMATION (CONTINUED)

Major customers

During the year ended 30 June 2019 approximately $8.2m (2018: $4.4m) of the Group's sales revenue was derived from sales to a single US aircraft and parts company.

Revenue

In accordance with IFRS 15, the group's revenue of $16,380,037 is made up of revenue from customers only and does not include any other revenue. Goods and services are transferred at a point in time, not over time, as detailed in the group's revenue recognition policy.

The Group does not have any contract assets or contract liabilities at 30 June 2019 ($nil at 30 June 2018) as the group does not fulfil any of its performance obligations in advance of invoicing to its customer or bill in advance for work performed. The Group however does have contractual balances in the form of trade receivables.

The Group also does not have any contractual costs capitalised at 30 June 2019 ($nil at 30 June 2018) or have any outstanding performance obligations at 30 June 2019 ($nil at 30 June 2018).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

4. INCOME AND EXPENSES

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
INCOME				
Other income				
Refunds	31,772	-	-	-
Gains on debt for equity swap	-	144,383	-	-
Foreign exchange gains	-	189,660	-	-
Finance income/(costs)				
Bank interest	9,842	1,782	-	-
Finance cost	(147,671)	(4,725)	-	-
	(137,829)	(2,943)	-	-
ANALYSIS OF EXPENSES BY NATURE				
Employee renumeration (see note 6)	4,058,379	1,507,392	900,309	-
Intangible assets				
Amortisation of other intangible assets	401,310	192,972	-	-
Property, plant and equipment				
Depreciation of plant and equipment	230,797	113,639	-	-
Amortisation of leasehold improvements	29,465	8,071	-	-
	260,262	121,710	-	-
Total depreciation and amortisation	661,572	314,682	-	-
Operating leases	367,225	296,024	57,883	-
Consumables and raw materials used	9,351,125	4,623,425	90,635	-
Provision for obsolescence	65,310	46,055	-	-
Freight	214,834	116,514	-	-
Auditor's remuneration (see note 27)	209,069	249,345	72,178	64,354
Impairment charges	-	-	125,132	3,795,458
Share-based payments expense	2,031,384	1,825,996	2,031,384	-
Research and develpment	417,295	163,141	155,686	-
Exceptional items	-	449,492	-	-
Other costs of sales, distribution and administration	2,507,379	2,144,361	1,122,447	171,622
	19,883,572	11,736,427	4,555,654	4,031,434

Impairment charges relate to loans to subsidiary undertakings which are written down to the net asset values of those entities excluding the loans at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

5. EXCEPTIONAL ITEMS

The prior year exceptional items consist of legal and professional fees of $302,592 and a share-based payment of $146,900 incurred in the acquisition of Anodyne Electronics Manufacturing Corp.

6. EMPLOYEES AND DIRECTORS

The average number of employees and directors employed by the Group during the year was:

	Consolidated		Parent	
	2019 No.	2018 No.	2019 No.	2018 No.
Employee and directors' numbers				
Production	42	33	-	-
Research	16	15	-	-
Selling and distribution	12	7	5	-
Administration (including directors)	34	34	4	3
	104	89	9	3

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Employee renumeration				
Wages and salaries	3,500,737	1,097,664	890,332	-
Share-based payments	2,031,384	1,972,896	2,031,384	-
Social security costs	332,327	301,503	-	-
Defined contribution costs	225,315	108,225	9,977	-
Total employee costs	6,089,763	3,480,288	2,931,693	-

Directors remuneration

Directors' fees, including superannuation, of $410,081 (2018: $504,490) are included in employee expenses expenses in the Statement of comprehensive income. Directors' share-based payments of $597,320 (2018: $1,527,806) are included in share-based payments in the Statement of comprehensive income.Refer to the remuneration report in the Director's report for further details. This also includes details of the highest paid director

During the prior year directors and some employees were recorded in a subsidiary of the Group. From 1 July 2018 they were recorded in the parent entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

7. INCOME TAX

	Consolidated		Parent	
	2019	2018	2019	2018
	$	$	$	$
The major components of income tax expense/(benefit) for the years ended 30 June 2019 and 30 June 2018 are:				
a) Income tax expense/(benefit)				
Current tax expense	408,044	285,157	-	-
Deferred tax	(7,517)	(359,108)	-	-
Income tax expense/(benefit) reported in statement of comprehensive income	400,527	(73,951)	-	-
A reconciliation of income tax expense/(benefit) applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the effective income tax rate for the years ended 30 June 2019 and 30 June 2018 is as follows:	(3,626,771)	(3,968,647)	(4,460,535)	(4,031,434)
Accounting loss before tax from continuing operations at the statutory income tax rate of 27.50% (2018: 27.50%)	(997,362)	(1,091,378)	(1,226,647)	(1,108,644)
Expenses/(income) not assessable for income tax purposes	3,871,383	567,745	3,747,943	1,052,887
Deferred tax not recognised	(3,274,548)	449,682	(2,521.296)	55,757
Income tax expense/(benefit) reported in statement of comprehensive income	(400,527)	(73,951)	-	-
Deferred tax assets/(liabilities)				
Deferred tax assets and liabilities are attributable to the following:				
Accrued expenses	112,276	(19,499)	(2,552)	(26,849)
Tax losses	11,717,608	11,385,920	2,101,004	1,751,813
Deferred tax not recognised	(11,829,885)	(11,366,421)	(2,098,452)	(1,724,964)
Recognised deferred tax assets				
Deferred tax assets are attributable to the following:				
Tax losses	-	107,061	-	-
	-	107,061	-	-

The income tax losses that have been recognised on current year losses have 19 years remaining before expiry. The remaining income tax losses have not been recognised because it is not currently probable that future taxable income will be available against which the Group can utilise these benefits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

7. INCOME TAX (CONTINUED)

2019	Business combination $	Tax losses $	Other timing difference $	Total $
Recognised deferred tax liabilities				
Movement in deferred tax liabilities during the year:				
Brought forward	708,284	(107,061)	(136,874)	464,349
Charge/(credit) to Statement of comprehensive income	(111,680)	107,061	(10,182)	(14,801)
Carried forward	596,604	-	(147,056)	449,548

2018	Business combination $	Tax losses $	Other timing difference $	Total $
Recognised deferred tax liabilities				
Movement in deferred tax liabilities during the year:				
Brought forward	-	-	-	-
Arising on business combination addition	791,611	-	-	791,611
Charge/(credit) to Statement of comprehensive income	(83,327)	(107,061)	(136,874)	(327,262)
Carried forward	708,284	(107,061)	(136,874)	464,349

8. LOSS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share has not been calculated as there were no performance rights or options on issue which would be potential ordinary shares having a dilutive effect. The number of options at 30 June 2019 was nil (2018: 1,829,082) and the number of performance rights at 30 June 2019 was 3,075,000 (2018: 2,625,000) These were not considered to be dilutive because the share price at 30 June 2019 did not exceed the share price targets attached.

The following reflects the income and share data used in the total operations basic loss per share computations:

	Consolidated	
	2019	2018
	$	$
Net loss attributable to equity holders from continuing operations	(4,027,298)	(3,894,697)
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for basic loss per share	114,866,601	109,771,428
Weighted average number of ordinary shares for diluted loss per share	114,866,601	109,771,428

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

9. CURRENT ASSETS - TRADE RECEIVABLES

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Trade receivables	3,333,770	2,867,156	-	-
	3,333,770	2,867,156	-	-

10. CURRENT ASSETS - PREPAYMENTS AND OTHER RECEIVABLES

	Consolidated		Parent	
	2019	**2018**	**2018**	**2018**
	$	**$**	**$**	**$**
Prepayments	222,533	185,249	9,192	-
Bank guarantee	66,166	-	-	-
Other receivable	-	4,624	-	-
GST receivable	64,617	87,741	-	-
Deposits	7,757	7,757	7,757	-
	361,073	285,371	16,949	-

11 CURRENT ASSETS - INVENTORY

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Raw materials	3,496,388	2,874,974	-	-
Work in progress	1,334,914	719,761	-	-
Finished goods	1,442,864	1,161,108	-	-
Provision for obsolescence	(114,292)	(46,055)	-	-
	6,159,874	4,709,788	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

12.NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and equipment	Total
Consolidated	**$**	**$**	**$**
Balance at 1 July 2018	112,863	423,967	536,830
Additions	2,460	227,531	229,991
Depreciation expense	(29,465)	(230,797)	(260,262)
Effect of FX movement on balances	6,346	26,842	33,188
Balance at 30 June 2019	92,204	447,543	539,747
Balance at 1 July 2017	-	-	-
Additions through business combinations	19,287	424,878	444,165
Additions	101,155	115,924	217,079
Depreciation expense	(8,071)	(113,639)	(121,710)
Effect of FX movement on balances	492	(3,195)	(2,703)
Balance at 30 June 2018	112,863	423,967	536,830

13. NON-CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL

Reconciliations of the written down values at the beginning and end of the current financial year are set out below (There were no intangible assets or goodwill in the previous financial year):

	Goodwill	Certifications	Licence agreement	Technology	Total
	$	$	$	$	$
Consolidated					
Balance at 1 July 2018	1,386,794	1,013,202	92,109	1,361,171	3,853,276
Amortisation expense	-	(232,337)	(21,122)	(147,851)	(401,310)
Effect of FX on balances	88,155	57,276	5,207	81,989	232,627
Balance at 30 June 2019	1,474,949	838,141	76,194	1,295,309	3,684,593

	Goodwill	Certifications	Licence agreement	Technology	Total
	$	$	$	$	$
Consolidated					
Balance at 30 June 2017	-	-	-	-	-
Additions through business combinations (note 26)	1,402,945	1,138,892	103,536	1,449,498	4,094,871
Amortisation expense	-	(111,720)	(10,156)	(71,096)	(192,972)
Effect of FX on balances	(16,151)	(13,970)	(1,271)	(17,231)	(48,623)
Balance at 30 June 2018	1,386,794	1,013,202	92,109	1,361,171	3,853,276

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

13. NON-CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

INTANGIBLE ASSETS

Certifications

AEM possesses distinct aircraft manufacturing and maintenance certifications, which are requisite to the sale and maintenance of their products in key markets.

Licence agreement

AEM has a licence agreement in place with one of their key customers to be the producer and seller of certain aircraft instruments. This has identifiable cash flows in the form of future sales to aircraft manufacturing and maintenance providers who require these instruments.

Technology

AEM has developed proprietary aircraft parts and manufacturing technology which are expected to continue to yield future sales. This intellectual property is seperable and identifiable to the extent that it could be licensed or acquired. In addition, there are identifiable future benefits in the form of cash flows from the sale of the resulting products to AEM customers.

Amortisation

The amortisation period applied to the intangible assets are as follows:

Certifications – 5 years, remaining amortisation period is 3.5 years

Licence agreement – 5 years, remaining amortisation period is 3.5 years

Technology – 10 years, remaining amortisation period is 8.5 years

Impairment testing

Goodwill of $1,402,945 acquired through business combinations has been allocated to the AEM cash generating unit (2018: $1,402,945).

The impairment test has been carried out using a discounted cash flow model covering a 5 year period. Cash flow projections are based on a budget for 2019/2020 approved by management. The principal assumptions made in determining the recoverable amount of goodwill as at 30 June 2019 include revenue growth of 2% per annum from 2021 and a discount rate of 16.3%.

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% less favourable in management’s estimate the Group would need to reduce the carrying value of goodwill by $nil (2018: $364,122).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

14. NON-CURRENT ASSETS - LOANS

Company	Loans to subsidiary undertakings $	Total $
Year ended 30 June 2019		
Cost		
At 1 July 2018	24,570,587	24,570,587
Repaid during the year	(1,580,522)	(1,580,522)
At 30 June 2019	22,990,065	22,990,065
Impairment		
At 1 July 2018	(11,045,546)	(11,045,546)
Impairment charge	(125,132)	(125,132)
	(11,170,678)	(11,170,678)
Net carrying amount at 30 June 2019	11,819,387	11,819,387
Year ended 30 June 2018		
Cost		
At 1 July 2017	9,897,390	9,897,390
Arising during the year	14,673,197	14,673,197
At 30 June 2018	24,570,587	24,570,587
Impairment		
At 1 July 2017	(7,250,088)	(7,250,088)
Impairment charge	(3,795,458)	(3,795,458)
	(11,045,546)	(11,045,546)
Net carrying amount at 30 June 2018	13,525,041	13,525,041

Company	Loans from subsidiary undertakings $	Total $
Year ended 30 June 2019		
Cost		
At 1 July 2018	-	-
Received during the year	304,803	304,803
At 30 June 2019	304,803	304,803
Net carrying amount at 30 June 2019	304,803	304,803

Loans to/from subsidiaries are unsecured, have no fixed date for repayment and attract no interest charge.

As the parent does not intend to call in the loans within the next 12 months the loans are classified as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

14.NON-CURRENT ASSETS – LOANS (CONTINUED)

See Note 23 for further details on impairment of intercompany receivables.The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

	Country of Incorporation	Type of equity	% Equity Interest	
			2019	2018
Structural Monitoring Systems Limited Registered office: Suite 39 1 Freshwater Parade Claremont WA 6009 Australia	Australia	Ordinary share	100	100
Structural Health Monitoring Systems Canada Corp (SMSCC) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	100
Anodyne Electronics Manufacturing Corp (AEM) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	100

15. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Trade payables	950,400	479,105	203,585	-
Other payables	1,632,877	983,671	87,308	47,598
	2,583,277	1,462,776	290,893	47,598

Trade payables are non-interest bearing and are normally settled within 30 day terms. Other payables are non-interest bearing and have an average term of 30 days.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

16. CURRENT LIABILITIES - BORROWINGS

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Credit card	-	7,741	-	-
Overdraft - secured	729,359	131,905	-	-
	729,359	139,646	-	-

AEM has a secured overdraft facility with a banking institution. The facility has a limit of C$2,000,000 secured on trade receivables and inventory. The variable interest rate on the facility is 4.95%.

17. CURRENT LIABILITIES - PROVISIONS

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Provision for income tax	229,721	133,045	-	-
	229,721	133,045	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

18 (a) RECONCILIATION FROM THE NET LOSS AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS

	Consolidated		Parent	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Loss before tax for the year	(3,626,771)	(3,968,648)	(4,460,535)	(4,031,434)
Adjustments for:				
Share based payments	2,031,385	1,972,896	2,031,384	-
Depreciation and amortisation	661,572	314,682	-	-
Gain on debt for equity swap on accrued directors' fees	-	(115,495)	-	-
Impairment of investments in subsidiaries	-	-	125,132	3,795,458
Changes in assets and liabilities				
Trade receivables	(466,614)	133,383	-	-
Prepayments and other receivables	(75,702)	(86,063)	(16,949)	-
Inventory	(1,450,086)	33,222	-	-
Trade and other payables	1,120,501	762,367	243,295	33,223
Net cash used in operating activities	(1,805,715)	(953,656)	(2,077,673)	(202,753)

18 (b) CASH AND CASH EQUIVALENTS

Cash at bank	2,290,546	3,388,759	-	-
Cash on hand	662	1,477	-	-
Overdraft	(729,359)	(139,646)	-	-
	1,561,849	3,250,590	-	-

19. LIABILITIES ARISING FROM FINANCING ACTIVITES

	Overdraft facility	Credit card facility	Total
Consolidated	**$**	**$**	**$**
Balance at 1 July 2018	131,905	7,741	139,646
Net cash provided by financing activities	571,526	(7,988)	563,538
Fx movement	25,928	247	26,175
Balance at 30 June 2019	729,359	-	729,359
Balance at 1 July 2017	-	-	-
Net cash provided by financing activities	130,900	7,682	138,582
FX movement	1,005	59	1,064
Balance at 30 June 2018	131,905	7,741	139,646

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

20. EMPLOYEE BENEFITS

(a) Employees incentive plan

On 11 December 2018 shareholders approved the employee incentive plan (EIP) for the granting of non-transferable shares or performance rights (PRs) to directors, employees and relevant contractors with more than six months' service at the grant date. The shares vest immediately and the PRs vest upon the satisfaction of the relevant performance hurdles within 3 years of issue. Under then plan shares will be offered at a 12.5% discount to the lowest 5 day VWAP (calculated by taking the lowest 5 daily share price VWAPs for that quarter – and taking the average).

Under the EIP 450,000 performance rights, and the issue of shares following the vesting of those performance rights, were granted to directors and executives during the year. Also under the EIP 274,679 shares were issued to employees at a discounted issue price of 77 cents. A further 438,691 shares were issued at no consideration. Details are included in note 21 Share-based payments.

(b) Pensions and other post-employment benefit plans

AEM maintains a defined contribution pension plan for its' employees. AEM contributes 5% of salary to the Plan. Employees must be employed with the company for 12 months before they are entitled to the benefit. There are currently 73 employees participating in the plan. Contributions are paid monthly and recognised in the Statement of comprehensive income.

21. SHARE-BASED PAYMENTS

The share-based payment expense for the year is as follows:

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Issue of performance rights to directors and executives	988,086	1,380,096	988,086	-
Issue of shares to directors and executives	57,000	146,900	57,000	-
Issue of performance rights to other consultants	85,408	-	85,408	-
Issue of shares to other consultants under EIP	900,890	445,900	900,890	-
	2,031,384	1,972,896	2,031,384	-

As of 1 July 2018 costs relating to directors and a number of employees are recorded in the parent entity having previously been recorded in a subsidiary of the parent.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

21. SHARE-BASED PAYMENTS (CONTINUED)

Performance Rights - Directors

On 7 August 2018 shareholders approved the issue of 150,000 Performance Rights (PRs) (and the issue of shares following the vesting of those Performance Rights) to a director under the Company Employee Incentive Plan

The following director PRs were issued during the year:

Director	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Total
Terry Walsh	25,000	25,000	25,000	25,000	25,000	25,000	150,000
Fair value at grant date ($)	22,575	19,725	17,300	16,250	15,275	14,375	105,500
Expense recognised in current period ($)	6,701	5,855	5,135	4,824	4,534	4,267	31,316

The inputs to the valuation of Director PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier ($)	2.00	2.50	3.00	3.25	3.50	3.75
Grant date	15-Aug-18	15-Aug-18	15-Aug-18	15-Aug-18	15-Aug-18	15-Aug-18
Performance period (years)	3.00	3.00	3.00	3.00	3.00	3.00
Volatility (%)	65	65	65	65	65	65
Risk free rate (%)	2.10	2.10	2.10	2.10	2.10	2.10
Dividend yield	-	-	-	-	-	-

Performance Rights - Consultants

On 15 April 2018 The Board granted the issue of the following PRs to an employee under the EIP. The PRs were previously estimated to have a $nil value as they were subject to a service condition which, it was estimated, would not be satisfied. The service condition was subsequently satisfied in the current period and the value measured as at the grant date has been recognised as an expense in the current period.

The following consultant PRs were issued during the year:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Total
	50,000	50,000	50,000	50,000	50,000	50,000	300,000
Fair value at grant date ($)	48,750	43,400	38,800	36,750	34,800	33,050	235,550
Expense recognised in current period ($)	17,676	15,737	14,069	13,325	12,618	11,983	85,408

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

21. SHARE-BASED PAYMENTS (CONTINUED)

The inputs to the valuation of consultant PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier ($)	2.00	2.50	3.00	3.25	3.50	3.75
Grant date	15-Apr-18	15-Apr-18	15-Apr-18	15-Apr-18	15-Apr-18	15-Apr-18
Performance period (years)	3.00	3.00	3.00	3.00	3.00	3.00
Volatility (%)	65	65	65	65	65	65
Risk free rate (%)	2.18	2.18	2.18	2.18	2.18	2.18
Dividend yield	-	-	-	-	-	-

The Black-Scholes pricing model was used in the valuations of performance rights issued during the year.

Volatility is determined by calculating the standard deviation of the closing price annualised over the period of time equal to that of the term of the PR prior to grant date. It shows the range to which the share price will increase or decrease over the term of the performance period.

The number of performance rights that were outstanding, their weighted average exercise price and their movement during the year is as follows:

	2019 No.	2018 No.	Weighted ave ex price 2019 $	Weighted ave ex price 2018 $
At 1 July	2,625,000	-	2.71	-
Granted	450,000	3,575,000	3.00	2.19
Exercised	-	(650,000)	-	-
Forfeited	-	(300,000)	-	2.33
At 30 June	3,075,000	2,625,000	2.75	2.71

The contractual term remaining on performance rights outstanding at 30 June 2019 is 18 months (2018: 2 years and 5 months).

The above PRs are not exercisable at the year end.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

21 SHARE-BASED PAYMENTS (CONTINUED)

The outstanding number of performance rights at 30 June 2019 and 30 June 2018 was as follows:

Exercise price $	Grant date	Expiry date	2019 $	2018 $
$2.00	15 August 2018	15 August 2021	25,000	-
$2.50	15 August 2018	15 August 2021	25,000	-
$3.00	15 August 2018	15 August 2021	25,000	-
$3.25	15 August 2018	15 August 2021	25,000	-
$3.50	15 August 2018	15 August 2021	25,000	-
$3.75	15 August 2018	15 August 2021	25,000	-
$2.00	15 April 2018	15 April 2021	50,000	-
$2.50	15 April 2018	15 April 2021	50,000	-
$3.00	15 April 2018	15 April 2021	50,000	-
$3.25	15 April 2018	15 April 2021	50,000	-
$3.50	15 April 2018	15 April 2021	50,000	-
$3.75	15 April 2018	15 April 2021	50,000	-
$2.00	7 December 2017	7 December 2020	600,000	600,000
$2.20	7 December 2017	7 December 2020	450,000	450,000
$2.50	7 December 2017	7 December 2020	250,000	250,000
$2.75	7 December 2017	7 December 2020	400,000	400,000
$3.00	7 December 2017	7 December 2020	150,000	150,000
$3.15	7 December 2017	7 December 2020	150,000	150,000
$3.25	7 December 2017	7 December 2020	100,000	100,000
$3.50	7 December 2017	7 December 2020	175,000	175,000
$3.75	7 December 2017	7 December 2020	225,000	225,000
$4.00	7 December 2017	7 December 2020	125,000	125,000
			3,075,000	2,625,000

Shares issued to staff and consultants under EIP

No. issued	Grant date	Share price at grant date $	Share-based payment charge $
150,000	13/4/18	1.175	176,250
150,000	15/4/18	1.230	184,500
100,000	7/8/18	1.140	114,000
274,679	6/3/19	0.890	35,465*
438,961	6/3/19	0.890	390,675
			900,890

* Fair value of shares less $209,000 paid by AEM employees under the Company Employee Incentive Plan.

All other shares were issued for nil consideration.

The fair value of share issues are determined by the share price at the date of grant. Shares were granted in the year for $nil consideration, with the exception of 274,679 shares which were granted for consideration of $0.77 per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

21 SHARE-BASED PAYMENTS (CONTINUED)

Shares issued to director

On 7 August 2018 shareholders approved the issue of 50,000 shares to Terry Walsh under the terms of his contract of employment. The expense recognised in the current period is $57,000. The total fair value was determined by the share price on the grant date of $1.14.

Performance shares - Octus Aerospace Solutions LLC

On 7 August 2018 shareholders approved the issue of 5,000,000 performance shares to Octus Aerospace Solutions LLC as follows:

Number	Vesting Condition
1,500,000	Performance shares will automatically convert into the same number of ordinary shares 6 months following the execution of the First Licensing Agreement with a Nominated Airline.
750,000	Performance shares will automatically convert into the same number of ordinary shares 6 months following the execution of each Additional Licensing Agreement with a different Nominated Airline (up to 4 Additional Licensing Agreements).
500,000	Performance shares will automatically convert into the same number of ordinary shares 6 months following the execution of 5th Additional Licensing Agreement with a different Nominated Airline.

Each Licensing Agreement must be executed within five years of the Commencement Date of the Introducer Agreement and must follow or be materially connected to an Introductory Meeting which must be arranged within two years of the Commencement Date.

No share-based payment expense has been recognised in relation to the performance shares issued during the period. The agreement has been terminated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

22. ISSUED CAPITAL AND RESERVES

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Ordinary Shares				
On issue 115,562,285, (2018: 114,398,645)				
Issued and fully paid	31,932,333	31,926,515	31,932,333	31,926,515
Total issued and fully paid	31,932,333	31,926,515	31,932,333	31,926,515

	Shares on issue (No.)	**$**
Movement in ordinary shares in issue		
At 30 June 2017	102,586,569	31,867,455
Issued on 14 November 2017 – placement of shares for cash	10,400,000	52,000
Issued on 21 November 2017 – in lieu of cash for placement costs	240,000	1,200
Issued on 29 December 2017 – share-based payments	941,186	4,706
Issued on 5 January 2018 – share-based payments	230,890	1,154
At 30 June 2018	114,398,645	31,926,515
Issued on 14 August 2018 – share-based payments	450,000	2,250
Issued on 6 March 2019 – share-based payments	274,679	1,373
Issued on 6 March 2019 – share-based payments	438,961	2,195
At 30 June 2019	115,562,285	31,932,333

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

22. ISSUED CAPITAL AND RESERVES (CONTINUED)

	Consolidated		Parent	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Share Premium Reserve				
Share Premium Reserve	35,105,783	34,919,253	35,105,783	34,919,253

	Shares on issue (No.)	**$**
Movement in ordinary shares in issue		
At 1 July 2017	102,586,569	22,069,759
Issued on 14 November 2017 – Placement of shares for cash	10,400,000	12,948,000
Issued on 21 November 2017 – In lieu of cash for placement costs	240,000	327,600
Issued on 29 December 2017 – share-based payments	941,186	60,296
Issued on 5 January 2018 - share based payments	230,890	45,223
Share issue - costs		(531,625)
At 30 June 2018	114,398,645	34,919,253
Issued on 14 August 2018 – share-based payments	450,000	-
Issued on 7 March 2019 – share-based payments	274,679	203,182
Issued on 7 March 2019 – share-based payments	438,961	-
Share issue - costs		(16,652)
At 30 June 2019	115,562,285	35,105,783

	Consolidated		Parent	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Other Reserves				
Foreign currency translation reserve	(1,690,629)	(2,407,738)	(2,271,001)	(2,271,001)
Share-based payment reserve	1,586,491	512,996	1,586,491	512,996

	Unlisted Options on issue No.*	*Performance rights on issue (PRs) No.*	$
Share-based payment reserve			
Outstanding at 30 June 2017	1,829,136	-	-
Grant of PRs – 29 December 2017	-	3,575,000	1,452,126
Conversion of PRs – 29 December 2017	-	(650,000)	(867,100)
Forefeiture of PRs – 17 June 2018	-	(300,000)	(72,030)
Outstanding at 30 June 2018	1,829,136	2,625,000	512,996
Grant of PRs – 29 December 2017	-	-	1,022,000
Grant of PRs – 7 August 2018	-	450,000	116,725
Expiry of options - 15 February 2019	(1,829,136)	-	-
Outstanding at 30 June 2019	-	3,075,000	1,651,721

* 1,829,136 options with an exercise price of $2.25 expired on 15 February 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

22. ISSUED CAPITAL AND RESERVES (CONTINUED)

Nature and purpose of reserves

Share premium reserve

The share premium reserve is used to record increments in the value of share issues when the issue price per share is greater than the par value. The par value of shares is currently $0.005 (2018: $0.005). Costs of the issues are written off against the reserve.

Share-based payment reserve

The share-based payment reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration, or to other parties in lieu of cash compensation.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the company.

Reserves classified on the face of the consolidated statement of financial position as retained earnings represent accumulated earnings and are distributable. All the other reserves are non-distributable.

Accumulated losses

Reserves classified on the face of the consolidated statement of financial position as accumulated losses are distributable. All other reserves are non-distributable.

23. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

Financial Risk Management

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- Market risk, including foreign currency risk, price risk and interest rate risk
- Credit and cashflow risk
- Liquidity risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

The Board of Directors oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

The Company and the Group's principal financial instruments are cash, receivables, borrowings and payables. The financial assets are categorised as loans and receivables and the financial liabilities are categorised as other financial liabilities measured at amortised cost.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the group uses.

Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances.

Interest bearing liabilities include a bank overdraft facility secured on trade receivables. At the date of issue of this report the facility has been repaid.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis as 2018.

		Profit or loss		Equity	
Consolidated - 30 June 2019	**Carrying value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	2,291,208	22,912	(22,912)	22,912	(22,912)
Borrowings	(729,359)	(7,294)	7,294	(7,294)	7,294
		15,618	(15,618)	15,618	(15,618)
Consolidated – 30 June 2018					
Cash and cash equivalents	3,390,236	33,902	(33,902)	33,902	(33,902)
Borrowings	(139,646)	(1,397)	1,397	(1,397)	1,397
		32,505	(32,505)	32,505	(32,505)

Credit and cash flow risk

Credit and cash flow risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

With respect to credit and cash flow risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit and cash flow risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. This risk is minimised by reviewing term deposit accounts from time to time with approved banks of a sufficient Fitch Ratings credit rating of at least A-, Moody's credit rating of at least A2, and Standard & Poor's credit rating of at least A-. The Group does not place funds on terms longer than 30 days and has the facility to place the deposit funds with more than one bank. The Group does not hold collateral as security for any of its' receivables.

The Group and Company undertake the following procedures to determine whether there has been a significant increase in the credit risk of its other receivables, including group balances, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

The Group and Company have not determined that credit loss has increased during the year in respect of the Group's trade receivables.

Exposure to credit and cash flow risk

The carrying amount of the Group's financial assets and liabilities represents the maximum credit exposure. The Group's maximum exposure to credit and cash flow risk at the reporting date was:

	Consolidated Carrying amount		Parent Carrying amount	
	2019	2018	2019	2018
	$	$	$	$
Cash and cash equivalents	2,291,208	3,390,236	-	-
Trade receivables	3,333,770	2,867,156	-	-
	5,624,978	6,257,392	-	-

The Group's maximum exposure to credit and cash flow risk for trade receivables and cash and cash equivalents at the reporting date by geographic region was:

	Consolidated Carrying amount		Parent Carrying amount	
	2019	2018	2019	2018
	$	$	$	$
Europe	758,897	198,277	-	-
Americas	3,857,905	2,805,304	-	-
Australasia	932,014	3,253,811	-	-
Other	76,162	-	-	-
	5,624,978	6,257,392	-	-

Trade receivables at 30 June 2019 represent 74 debtors days (2018: 79 debtor days).

There were no impairment losses at 30 June 2019 (2018: $nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Impairment of company receivables from subsidiaries

The Company's group receivables represent trading balances and loan amounts advanced to other group companies with no fixed repayment dates. Under IFRS 9 the fair value of this intercompany receivable is repayable on demand to the company.

The company was due the following amounts as at 30 June 2019 before the recognition of any impairment loss provisions:

	SMS Ltd $	SMSCC $
Gross	11,762,606	11,227,459
Impairment	(11,170,678)	-
Carrying value at 30 June 2019	591,928	11,227,459

In respect of the balance due from Structural Monitoring Systems Limited (SMS Ltd), the Company did not have sufficient liquid resources at 30 June 2019 to repay the loan in full. An impairment loss provision has been recognised to the extent the carrying value at 30 June 2019 is covered by the recovery of net assets in the balance sheet of SMS Ltd. This has been measured based on lifetime expected credit losses on the basis that credit risk has increased since initial recognition.

In respect of the balance due from Structural Monitoring Systems Canada Corporation (SMSCC), the Company did not have sufficient liquid resources at 30 June 2019 to repay the loan in full. However, on the basis that the balance is expected to be recovered by the subsidiary's trading, no impairment loss provision has been recognised (2018: $543,501). This has been measured based on 12 month expected credit losses.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities:

Consolidated - 30 June 2019	Carrying amount $	Contractual cash flows $	6 months or less $
Trade and other payables	(2,556,087)	(2,556,087)	(2,556,087)
Borrowings	(729,359)	(729,359)	(729,359)
	(3,285,446)	(3,285,446)	(3,285,446)

Consolidated - 30 June 2018	Carrying amount $	Contractual cash flows $	6 months or less $
Trade and other payables	(1,462,776)	(1,462,776)	(1,462,776)
Borrowings	(139,646)	(139,646)	(139,646)
	(1,602,422)	(1,602,422)	(1,602,422)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Fair Value of Financial Assets and Liabilities

The carrying amount of financial assets and financial liabilities at amortised cost recorded by category is as follows:

	Consolidated Carrying amount		Parent Carrying amount	
	2019	2018	2019	2018
	$	$	$	$
Financial assets measured at amortised cost				
Cash and cash equivalents	2,291,208	3,390,236	-	-
Trade receivables	3,333,770	2,867,156	-	-
Loans to subsidiary undertakings	-	-	11,819,387	13,525,041
	5,624,978	6,257,392	11,819,387	13,525,041
Financial liabilities measured at amortised costs				
Borrowings	729,359	139,646	-	-
Trade and other payables	2,583,277	1,462,776	290,894	47,598
Loans from subsidiary undertakings	-	-	304,803	-
	3,312,636	1,602,422	595,697	47,598

Foreign Currency Risk

The Group undertakes sales and purchases that are denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations in the US dollar, Canadian dollar, the Euro and the British pound.

Exposure to Currency Risk

The Group's exposure to foreign currency risk at reporting date was as follows, based on notional amounts:

30 June 2019				
In AUD	**AUD**	**CAD**	**USD**	**GBP**
Cash	666,981	182,288	1,441,939	-
Trade receivables	-	235,918	3,097,852	-
Trade and other payables	(614,066)	(1,333,117)	(590,927)	(45,167)
	52,915	(914,911)	3,948,864	(45,167)

30 June 2018				
In AUD	**AUD**	**CAD**	**USD**	**GBP**
Cash	2,229,616	304,223	856,398	-
Trade receivables	-	126,598	2,740,558	-
Trade and other payables	(456,459)	(762,210)	(196,509)	(47,598)
	1,773,156	(331,390)	3,400,447	(47,598)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

The Group had net assets denominated in foreign currencies of $2,988,786 as at 30 June 2019 (2018: net assets of $3,021,459). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2018: weakened by 10%/strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the year would have been $136,456 higher/$68,228 lower (2018: $186,084 higher/$93,042 lower).

The Board regularly monitors the Group's exposure to foreign exchange fluctuations.

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
AUD:CAD	0.9469	0.9846	0.9187	0.9771
AUD:USD	0.7156	0.7753	0.7013	0.7403

Capital Risk Management

The Company and the Group's objectives when managing capital are to safeguard the Company and the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Company and the Group's capital is performed by the Board.

Given the level of operations of the Group, the Board has a secured overdaft facility available with a credit limit of CA$2 million. It has not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares. The Board regularly monitors, liquidity, exchange rates, cash flow and financial assets and liabilities balances by means of financial reports and cashflow forecasting.

None of the Group's entities are subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

24. COMMITMENTS AND CONTINGENCIES

During the year, a claim for royalties was received by Structural Monitoring Systems Limited ("the Company"). A case for the defence of the claim is being prepared in advance of arbitration. As a matter of prudence the Company has made provision for costs and interest for the sum of $389,557 inc GST as a current liability under other payables in the statement of financial position as at 30 June 2019. An additional amount being claimed of $345,911 has not been accrued as it is not considered probable that the Company will be required to settle the remaining part of the claim.

The commitments of the Group are as follows:

	Consolidated		Parent	
	2019	**2018**	**2019**	**2018**
Operating lease commitments	**$**	**$**	**$**	**$**
Land and buildings				
Within one year	247,309	303,530	80,519	-
Later than one year but not later than 5 years	98,401	611,518	98,401	-
	345,710	915,048	178,920	-

25. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Structural Monitoring Systems Plc and the subsidiaries listed in the following table.

	Country of incorporation	**% Equity interest 2019**	**% Equity interest 2018**
Structural Monitoring Systems Ltd	Australia	100	100
Structural Monitoring Systems Canada Corp (SMSCC)	Canada	100	100
Anodyne Electronics Manufacturing Corp (AEM)	Canada	100	100

Structural Monitoring Systems Plc is the ultimate parent entity and is incorporated in the United Kingdom. The Company carries on the business of developing the Group's structural health monitoring technology.

Structural Monitoring Systems Limited is a subsidiary of the Group and is incorporated in Australia. It is the owner of the intellectual property pertaining to the structural health monitoring technology.

SMSCC was incorporated on 24 October 2017.

Anodyne Electronics Manufacturing Corporation (AEM), was acquired by SMSCC on 8 December 2017 for a consideration of $10,998,750.

Remuneration paid to the directors and executives, who are considered key management personnel, for the year is disclosed in the remuneration report in the Directors Report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

25. RELATED PARTY DISCLOSURE

The following are the amounts due to key management personnel at reporting date:

	2019 $	2018 $
Due to executive – Toby Chandler	55,845	3,028
Due to director – Michael Reveley	44,491	-
Due to director – Will Rouse	30,000	-
Due to director – Terry Walsh	28,750	-

26. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date the Company announced the execution of an updated agreement with the Boeing Company for the acquisition of products and services, and the Company has been granted license rights to use Boeing propriety data for the sale of products or services.

Other than the above no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

27. AUDITORS' REMUNERATION

Details of the amounts paid to the auditor of the Company, RSM UK Audit LLP, and other auditors for audit and non-audit services provided during the year are set out below.

	Consolidated		Parent	
	2019 $	2018 $	2019 $	2018 $
Fees payable to RSM UK LLP and its associates in respect of both audit and non-audit services are as follows:				
Audit services – statutory audit of parent and consolidated accounts	142,373	137,165	45,167	48,265
Other services				
Audit services – statutory audit of associates of the company	-	3,500	-	-
Audit-related assurance services	44,548	44,200	21,011	9,832
Taxation compliance services	16,000	11,300	6,000	-
Taxation advisory services	6,148	53,180	-	6,257
	209,069	249,345	72,178	64,354

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Opinion

We have audited the financial statements of Structural Monitoring Systems PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2019 which comprise of the group and parent company Statement of comprehensive income, group and parent company Statement of financial position, group and parent company Statement of cash flows, group and parent company Statement of changes in equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's and parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Group key audit matters

Impairment of goodwill and intangible assets

Risk:

The Group acquired its subsidiary, Anodyne Electronics Manufacturing Corp, in the year ended 30 June 2018. The recoverability of the goodwill and intangibles assets arising on acquisitions is dependent on the individual cash-generating unit to which the goodwill and intangible assets are allocated generating sufficient cash flows in the future. Due to the inherent uncertainty involved in forecasting future cash flows and the judgements involved in selection of an appropriate discount rate, which are the basis of the assessment of recoverability, this is considered a key audit matter.

Refer to note 13 to the financial statements for the disclosures relating to the goodwill and the related impairment calculations.

Our response:

Our audit procedures included reviewing management's discounted cash flow model, testing and challenging the judgements and assumptions used by management in their assessment of whether the cash generating unit to which goodwill is allocated is impaired and assessing management's sensitivity analysis on the cash flow model.

We have assessed the inputs in determining the discount rate used to calculate the present value of projected future cash flows. We have also assessed the validity of the model and challenged the valuation model and the basis of management's impairment considerations.

We assessed management's earnings assumptions in the models compared to current year performance and forecasted performance for the next financial year. We have reviewed management's sensitivity analysis of key assumptions, including the revenue growth forecasts and the discount rate. We have further considered whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions were adequate and properly reflected the risks inherent in the valuation of the cash generating units.

Valuation of inventory

Risk:

As at 30 June 2019, the Group held inventories of $6.2m. As described in the Accounting Policies in note 11 to the financial statements, inventories are carried at the lower of cost and net realisable value. The cost of investment comprises of direct materials and delivery costs, as well as an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. As a result, judgement is applied in determining the level of provisions required for obsolete inventory and an appropriate apportionment of labour and overheads. We therefore consider this to be a key audit matter.

Our response:

We have performed inventory price testing for a sample of material costs. As part of this testing, where the item sampled was sold post year end, we have confirmed this has been at an amount in excess of cost.

We have also assessed the calculation of labour and overhead absorption during the year and whether the value of labour and overhead costs included in inventory at 30 June 2019 is appropriate. Our work has been included examining the operating capacity utilisation during the year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

We have further held discussions with operations staff and assessed the aging of inventory at 30 June 2019, as well as examining forecasted sales for the next financial year, to determine whether the inventory provision recognised at 30 June 2019 is appropriate.

Parent company key audit matters

We have not identified any additional key audit matters in respect of the company statement of financial position.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as $132,000 which was revised to $143,000 as the audit progressed. Materiality for the parent company financial statements as a whole was calculated as $113,000, which was revised to $114,000 as the audit progressed. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of $10,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and by assessing the risks of material misstatement. Full scope audits were carried out on the group and parent company financial statements. Significant components were subject to a full scope audit to group materiality. This covered 82% of consolidated loss before tax and 95% of consolidated net assets. All other components have been covered by desktop review and analytical procedures.

Where audit work was performed by component auditors, specifically in relation to Anodyne Electronics Manufacturing Corp, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient, appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. Detailed audit instructions were issued and a review was performed of the work of the component auditor.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page X, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

PAUL WATTS (Senior Statutory Auditor)

For and behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

Date: 30 September 2019

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 26 September 2019.

(a) Distribution of CDI securities

Range	Total holders	Units	% Units
1 - 1,000	582	326,942	0.28
1,001 - 5,000	844	2,394,073	2.07
5,001 - 10,000	411	3,198,920	2.76
10,001 - 100,000	805	25,654,899	22.14
100,001 Over	140	84,278,621	72.75
Rounding			**0.00**
Total	**2,782**	**115,853,455**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.8350 per unit	599	299	74,437

(b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Holder	Number of Shares
Drake Special Situations LLC	23,862,500

ASX ADDITIONAL INFORMATION (CONTINUED)

Rank	Name	Units	% Units
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	28,775,183	24.84
2	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	5,697,937	4.92
3	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	3,631,505	3.13
4	MR PAUL COZZI	2,804,132	2.42
5	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	2,500,000	2.16
6	MR STEPHEN CAMPBELL FORMAN	1,900,000	1.64
7	CITICORP NOMINEES PTY LIMITED	1,799,326	1.55
8	STRAIGHT LINES CONSULTANCY PTY LTD <STRAIGHT LINES CONSULT A/C>	1,660,000	1.43
9	ROSHERVILLE PTY LTD <THE AYTON SUPER A/C>	1,500,000	1.29
10	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,398,820	1.21
11	ANODYNE ELECTRONICS HOLDING CORP	1,320,000	1.14
12	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,120,687	0.97
13	LANDMARK CONSTRUCTION PTY LTD <MEYER SHIRCORE UNIT S/F A/C>	1,066,679	0.92
14	AVANTEOS INVESTMENTS LIMITED <4358776 DEBRA A/C>	880,000	0.76
15	MR DAVID MICHAEL BROWN <DB ENTERPRISES MANAGEMENT FUND A/C>	875,000	0.76
16	MR ROSS MALCOLM SPENCER + MR CLINTON LEON SPENCER <SPENCER FAMILY SUPERFUND A/C>	862,520	0.74
17	BACTENCE PTY LTD <PYNFITE BACTENCE S/FUND A/C>	850,000	0.73
18	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	688,500	0.59
19	MR MARTIN H MANN	625,000	0.54
20	ENDEAVOUR RIVER PTY LTD	600,000	0.52
20	LOOBY HOLDINGS PTY LTD <K & F LOOBY SUPER FUND A/C>	600,000	0.52
Totals: Top 21 holders of CHESS DEPOSITORY INTEREST (Total)		**61,155,289**	**52.79**
Total Remaining Holders Balance		**54,698,166**	**47.21**

CORPORATE GOVERNANCE STATEMENT

The Company has established, and continues to refine and improve procedures to ensure a culture of good corporate governance exists and is respected across the consolidated entity.

The Company has a written policy designed to ensure compliance with ASX Listing Rules and all other regulatory requirements for disclosures. Additionally the Company has adopted a policy designed to ensure procedures to implement the policy are suitable and effective.

The Board wishes to acknowledge that nothing has come to its attention that would lead it to conclude that its current practices and procedures are not appropriate for an organisation of the size and maturity of the Company. The Corporate Governance Policy and the Company's corporate governance practices is set out on the Company's web site at www.smsystems.com.au.

NOMINATION MATTERS

The following list identifies those directors and officers who are members of the Nomination Committee.

Name:

Michael Reveley (Chair)

Sam Wright

Toby Chandler

There were no meetings of the nomination committee.

AUDIT MATTERS

The following list identifies those directors and officers who are members of the Audit Committee.

Name	No of meetings attended
Michael Reveley (Chair)	-
Sam Wright	-
Toby Chandler	-

Details of each director's qualifications are set out in the Director's Report.

All current members of the Audit Committee have relevant qualification in financial and accounting experience.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

REMUNERATION MATTERS

Remuneration Policy

Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report and the Notes to the Financial Statements.

Remuneration Committee Function

Name	No of meetings attended
Michael Reveley (Chair)	-
Sam Wright	-
Toby Chandler	-

OTHER

Skills, Experience, Expertise and term of office of each Director

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report. There is no set term of office for any Director.

Assurances to the Board

The Board has required management to implement and maintain risk management and internal control systems to manage the Company's materials business risks. (A summary of the Company's policy on risk oversight is available on the Company's website, a summary of the Company's risk management of material business risks is provided below.) The board also requires management to report to it confirming that those risks are being managed effectively. Further the Board has received an assurance from management that the Company's management of its material business risks are effective.

Also the Chief Executive Officer and the Chief Financial Officer have provided a declaration in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

Summary of Company's System & Processes on the management of material risks:

The Company has included a summary of its risk management policy, and its systems and processes for managing material business risks on its website at www.smsystems.com.au.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Identification of Independent Directors and the Company's Materiality Thresholds

In considering the independence of directors, the Board refers to its *Policy on Assessing the Independence of Directors* (available on the Company's website).

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's *Board Charter* (available on the Company's website):

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 5% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The directors of the Company are all considered to be independent.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's Policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

Confirmed. The Board Performance Evaluation Policy is available at www.smsystems.com.au in the Corporate Governance Statement.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors (other than for superannuation).